

**2002 Underpayment of Estimated Tax by Corporations****5806**

For calendar year 2002 or fiscal year beginning month \_\_\_\_\_ day \_\_\_\_\_ year 2002, and ending month \_\_\_\_\_ day \_\_\_\_\_ year \_\_\_\_\_

Corporation name \_\_\_\_\_

California corporation number \_\_\_\_\_

**Part I Figure the Underpayment** If line 7 shows an underpayment for any installment, complete the remainder of this form.

<b>1</b> Current year's tax. See instructions .....	<b>1</b>				
		(a)	(b)	(c)	(d)
<b>2</b> Installment due dates. See instructions .....	<b>2</b>				
<b>3</b> Percentage required. See instructions .....	<b>3</b>	25% (not less than min.)	50% less 1st	75% less prior	100% less prior
<b>4</b> Amount due. See instructions .....	<b>4</b>				
<b>5 a</b> Amount paid or credited for each installment .....	<b>5a</b>				
<b>b</b> Overpayment from previous installment. See instructions.	<b>5b</b>				
<b>6</b> Add line 5a and line 5b .....	<b>6</b>				
<b>7</b> Underpayment (subtract line 6 from line 4). See instructions. Overpayment (subtract line 4 from line 6). (If line 7 shows an underpayment for any installment, go to <b>Part IV, Exceptions Worksheets.</b> ) .....	<b>7</b>				

**Part II Exceptions to the Penalty****Note:** If Exception A, line 8a is met for all four installments, do not attach this form to the return.

	(check the applicable boxes)	Yes	No	Yes	No	Yes	No	Yes	No
<b>8 a</b> Exception A – Regular Corporations, line 26 .....	<b>8a</b>								
<b>b</b> Exception A – Large Corporations. See instructions .....	<b>8b</b>								
<b>9</b> Exception B (line 42) met? .....	<b>9</b>								
<b>10</b> Exception C (line 64) met? .....	<b>10</b>								

**Part III Figure the Penalty** If line 7 shows an underpayment for any installment and one of the three exceptions was not met, figure the penalty for that installment by completing line 11 through line 22.

<b>11</b> Enter the earlier of the payment date, or the 15th day of the 3rd month after the close of the taxable year. Form 109 filers, see instructions .....	<b>11</b>				
<b>12</b> Number of days from date shown on line 2 to date shown on line 11 ..	<b>12</b>				
<b>13</b> Number of days on line 12 before 7/01/02 .....	<b>13</b>				
<b>14</b> Number of days on line 12 after 6/30/02 and before 1/01/03 .....	<b>14</b>				
<b>15</b> Number of days on line 12 after 12/31/02 and before 7/01/03 .....	<b>15</b>				
<b>16</b> Number of days on line 12 after 6/30/03 and before 1/01/04. See inst. ..	<b>16</b>				
<b>17</b> Number of days on line 12 after 12/31/03 and before 2/15/04 .....	<b>17</b>				
<b>18</b> Number of days on line 13 Number of days in taxable year x 7% x line 7 .....	<b>18</b>				
<b>19</b> Number of days on line 14 Number of days in taxable year x 6% x line 7 .....	<b>19</b>				
<b>20</b> Number of days on line 15 Number of days in taxable year x 6% x line 7 .....	<b>20</b>				
<b>21</b> Number of days on line 16 Number of days in taxable year x % (call FTB for %) x line 7 ...	<b>21</b>				
<b>22</b> Number of days on line 17 Number of days in taxable year x % (call FTB for %) x line 7 ...	<b>22</b>				
<b>22a</b> Add amounts for each column from line 18 through line 22 .....	<b>22a</b>				
<b>22b</b> <b>Total estimated penalty due.</b> Add line 22a, column (a) through column (d). Enter here and on Form 100, line 41a; Form 100W, line 41a; Form 100S, line 40a; or Form 109, line 29 .....	<b>22b</b>				

**Part IV Exceptions Worksheets** Even if line 7 shows an underpayment for any installment, the Franchise Tax Board (FTB) will **not** assess a penalty if timely payments were made and they equal or exceed the amount determined under any of the three exceptions for the same installment period.

**Exception A — Prior Year's Tax — Regular Corporations**

23 Prior year's tax (the return must have been for a full 12 months) .....		23							
	(a)	(b)	(c)	(d)					
	25% (not less than min.)	50%	75%	100%					
24 Enter line 23 x the percentage shown .....	24								
25 Amount paid by the installment due date (cumulative) .....	25								
26 Exception met? Circle "Yes" or "No" and check applicable boxes on line 8a .....	26	Yes	No	Yes	No	Yes	No	Yes	No

**Exception A — Prior Year's Tax — Large Corporations**

Use this exception only if prior year tax is less than current year tax.

27 Current year's tax .....		27							
		1st Installment		2nd Installment					
28 a Installment due. Enter line 23 x 25% (.25) .....	28a								
b Installment due. Enter line 27 x 50% (.50) .....	28b								
29 Amount paid by the installment due date (cumulative) .....	29								
30 Compare the amount on line 28 with the amount on line 29. If the amount on line 28 is greater than the amount on line 29, the exception was not met. Circle "Yes" or "No" and check applicable boxes on line 8b. To meet this exception you must circle <b>Yes</b> for <b>both</b> installments .....	30	Yes	No	Yes	No				

See instructions regarding amounts to use for installment 3 and installment 4.

**Exception B — Tax on Annualized Current Year Income**

Enter number of months for each period. See instructions ►

	(a)	(b)	(c)	(d)					
31 Enter taxable income for each annualization period .....	31								
32 Annualization amounts. See instructions .....	32								
33 a Annualized taxable income. Multiply line 31 by line 32 .....	33a								
b R&TC Section 23802(e) deduction (S corporations only) .....	33b								
c Net income. Subtract line 33b from line 33a .....	33c								
34 Tax. Multiply line 33c by the current tax rate .....	34								
35 Tax credits for each payment period .....	35								
36 Subtract line 35 from line 34 .....	36								
37 Other taxes* .....	37								
38 Total tax. Add line 36 and line 37 .....	38								
39 Applicable percentage. For short period returns (taxable year of less than 12 months), see the instructions for Part I, line 3 .....	39	25%	50%	75%	100%				
		(not less than min.)							
40 Installment due. Multiply line 38 by line 39 .....	40								
41 Amount paid by the installment due date (cumulative) .....	41								
42 Exception met? If the exception has been met for any of the installment periods, circle "Yes" or "No" and check applicable boxes on line 9 .....	42	Yes	No	Yes	No	Yes	No	Yes	No

\*Include alternative minimum tax, S corporation taxes from Schedule D and from the excess net passive income tax, the QSub annual tax, LIFO recapture tax, installment amount credit recapture, and the minimum franchise tax.

**Part IV Exceptions Worksheets** Continued

**Exception C — Tax on Annualized Seasonal Income**

	(a)	(b)	(c)	(d)					
	1st 3 months	1st 5 months	1st 8 months	1st 11 months					
<b>43</b> Enter taxable income for the following periods:									
<b>a</b> Taxable year beginning in 1999 .....	<b>43a</b>								
<b>b</b> Taxable year beginning in 2000 .....	<b>43b</b>								
<b>c</b> Taxable year beginning in 2001 .....	<b>43c</b>								
<b>44</b> Enter taxable income for each period for the taxable year beginning in 2002 .....	<b>44</b>								
	1st 4 months	1st 6 months	1st 9 months	Entire year					
<b>45</b> Enter taxable income for the following periods:									
<b>a</b> Taxable year beginning in 1999 .....	<b>45a</b>								
<b>b</b> Taxable year beginning in 2000 .....	<b>45b</b>								
<b>c</b> Taxable year beginning in 2001 .....	<b>45c</b>								
<b>46</b> Divide the amount in each column on line 43a by the amount in column (d) on line 45a .....	<b>46</b>								
<b>47</b> Divide the amount in each column on line 43b by the amount in column (d) on line 45b .....	<b>47</b>								
<b>48</b> Divide the amount in each column on line 43c by the amount in column (d) on line 45c .....	<b>48</b>								
<b>49</b> Add line 46 through line 48 .....	<b>49</b>								
<b>50</b> Divide line 49 by 3 .....	<b>50</b>								
	1st 4 months	1st 6 months	1st 9 months	Entire year					
<b>51 a</b> Divide line 44 by line 50 .....	<b>51a</b>								
<b>b</b> R&TC Section 23802(e) deduction. (S corporations only) .....	<b>51b</b>								
<b>c</b> Net income. Subtract line 51b from line 51a .....	<b>51c</b>								
<b>52</b> Tax. Multiply line 51c by the current tax rate .....	<b>52</b>								
<b>53</b> Divide the amounts in column (a) through column (c) on line 45a by the amount in column (d) on line 45a .....	<b>53</b>								
<b>54</b> Divide the amounts in column (a) through column (c) on line 45b by the amount in column (d) on line 45b .....	<b>54</b>								
<b>55</b> Divide the amounts in column (a) through column (c) on line 45c by the amount in column (d) on line 45c .....	<b>55</b>								
<b>56</b> Add line 53 through line 55 .....	<b>56</b>								
<b>57</b> Divide line 56 by 3 .....	<b>57</b>								
<b>58</b> Multiply the amounts in column (a) through column (c) of line 52 by the amounts in the corresponding column of line 57. In column (d), enter the amount from line 52, column (d) ...	<b>58</b>								
<b>59</b> Tax credits for each payment period .....	<b>59</b>								
<b>60</b> Subtract line 59 from line 58 .....	<b>60</b>								
<b>61</b> Other taxes* .....	<b>61</b>								
	(not less than min.)								
<b>62</b> Total tax. Add line 60 and line 61 .....	<b>62</b>								
<b>63</b> Amount paid by the installment due date (cumulative) .....	<b>63</b>								
<b>64</b> If the exception has been met for any of the installment periods, circle "Yes" or "No" and check applicable boxes on line 10 .....	<b>64</b>	Yes	No	Yes	No	Yes	No	Yes	No

\*Include alternative minimum tax, S corporation taxes from Schedule D and from the excess net passive income tax, QSub annual tax, LIFO recapture tax, installment amount credit recapture, and the minimum franchise tax.

# Instructions for Form FTB 5806

## Underpayment of Estimated Tax by Corporations

### General Information

For the 2002 taxable year only, no addition to tax shall apply with respect to any underpayment of estimated tax to the extent the underpayment of an installment was created or increased by any provisions law enacted or amended by an act chaptered during the 2002 calendar year. To request a waiver of underpayment of estimated tax penalty:

- Complete form FTB 5806 to compute the full penalty, which would normally be due,
- Write the word "Waiver," in red, across the top of form FTB 5806;
- Attach an explanation to form FTB 5806 that gives the specific law changes that caused the underpayment and show the computation and the amount of penalty to be waived; and
- Attach form FTB 5806 to the face of the return.

A second form FTB 5806, clearly marked "Second form FTB 5806", may be used to show the computation of the penalty not related to the law change.

#### Newly Formed or Qualified Corporations

For corporations, that incorporate or qualify to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California Secretary of State (SOS) is no longer required. For the first taxable year the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. However, the corporation will be required to make estimated tax payments for its first taxable year. The estimated payments will be based on the corporation's expected tax liability after credits for its first taxable year. The corporation will become subject to minimum franchise tax beginning in its second taxable year.

Use California Revenue and Taxation Code (R&TC) Section 19011, Section 19021 through Section 19027, and Section 19142 through Section 19161 to determine the estimated tax requirement for California.

The term **corporation**, as used in form FTB 5806 and in these instructions, includes banks, financial corporations, regulated investment companies, real estate investment trusts, exempt organizations with unrelated business taxable income in excess of \$1,000, exempt homeowners' association with nonexempt function taxable income in excess of \$100, limited liability companies classified as corporations, and S corporations.

An S corporation that is a parent of a Qualified Subchapter S Subsidiary (QSub) is required to pay an \$800 annual tax for each QSub. The QSub annual tax is due and payable on the S corporation's first estimate installment due date. The QSub annual tax is subject to the estimated tax rules and penalties.

If an S corporation acquires a QSub during the taxable year, but after the due date of the first

estimate installment, then the QSub annual tax is due with the next required estimate installment after the acquisition of the QSub.

**Tax**, for purposes of estimates, includes alternative minimum tax, taxes from Schedule D, excess net passive income tax, LIFO recapture tax installment amount, and the minimum franchise tax. This differs from federal law.

### Purpose

Corporations may use form FTB 5806 to determine if they:

- Paid the correct estimated tax; or
- Are subject to the penalty for underpayment of estimated tax, and if so, the amount of the penalty.

Estimated tax is a corporation's expected tax liability after credits.

**Caution:** A corporation subject to the franchise tax must always pay at least the required minimum franchise tax, and any QSub annual tax if applicable, by the 15th day of the 4th month of the taxable year. For corporations, that incorporate or qualify to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California Secretary of State (SOS) is no longer required. For the first taxable year the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. **However**, the corporation will be required to make estimated tax payments for its first taxable year. The estimated payments will be based on the corporation's expected tax liability after credits for its first taxable year. The corporation will become subject to minimum franchise tax beginning in its second taxable year.

Attach form FTB 5806 to the front of Form 100, California Corporation Franchise or Income Tax Return; Form 100W, California Corporation Franchise or Income Tax Return – Water's-Edge Filers; Form 100S, California S Corporation Franchise or Income Tax Return; or Form 109, California Exempt Organization Business Income Tax Return, **only** if the corporation uses Exception B or Exception C in figuring or eliminating the estimate penalty. Be sure to check the penalty box on Form 100, line 41b; Form 100W, line 41b; Form 100S, line 40b; or Form 109, line 30. Also see Specific Line Instructions, Part II, Exceptions to the Penalty.

### Specific Line Instructions

#### Part I Figure the Underpayment

Generally, an underpayment is the difference between the amount due for each installment of estimated tax and the amount actually paid or credited on or before the due date of that installment.

**Line 1** – Enter the total tax from Form 100, line 31; Form 100W, line 31; Form 100S, line 30; or Form 109, line 20. Also include any add-on taxes (except interest computed under the look-back method for completed long-term contracts and the increase in tax for the deferral of installment sale income) or credits recaptured from Form 100, Form 100W, or Form 100S, Schedule J; or Form 109, Schedule K.

**Line 2** – Enter in column (a) through column (d) the estimated tax installment due dates that correspond to the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year.

**Line 3** – Short period filers. Use the table below to determine the required percentage. \*

Newly formed or qualified corporations are not subject to the minimum franchise tax for the first taxable year.

**Line 4, column (a)** – Enter 25% of the amount on line 1. Do not enter an amount less than the minimum franchise tax for the taxable year and any QSub annual tax, if applicable.

Or, if the prior year's tax was the minimum franchise tax and the corporation is a regular corporation, enter the minimum franchise tax.

#### Exception:

You can enter an amount less than minimum tax if you are newly formed or qualified corporation, you have been granted a tax exemption by the Franchise Tax Board (FTB), or are subject to income tax only under Chapter 3 of the California Corporation Tax Law (i.e., corporations that are not doing business within California but derive income from sources within California.)

**Line 4, column (b)** – Enter 50% of the amount on line 1 minus the amount entered in column (a).

**Line 4, column (c)** – Enter 75% of the amount on line 1 minus the total of the amounts entered on line 4, column (a) and column (b).

**Line 4, column (d)** – Enter 100% of the amount on line 1 minus the total of the amounts entered on line 4, column (a), column (b), and column (c).

**Line 5a** – The overpayment from a timely filed prior year return is credited as of the first estimate installment due date or the date of payment, whichever is later.

The overpayment from a delinquent filed prior year return is credited as of the original due date of the return, the date of payment, or the first estimate installment due date, whichever is later.

For more information, refer to federal Rev. Rul. 99-40, IRC Section 6513 (b) (1) and (2), and IRS Internal Revenue Manual 20.2.4.3 (03-01-2002).

**Line 5b** – Enter the overpayment from the previous installment. **However, if an underpayment existed on any prior installment, pay that underpayment first.**

**\*Accounting Period Less Than 12 Months (Short Period)**  
Fiscal year corporations, adjust dates accordingly.

If taxable year (calendar year) begins:	Number of Installments Due	Percentage of Estimated Tax Due On or Before the 15th Day of			
		April	June	September	December
January 1 through January 16	4	25%	50%	75%	100%
January 17 through March 16	3		33 1/3%	66 2/3%	100%
March 17 through June 15	2			50%	100%
June 16 through September 15	1				100%
September 16 through December 31	None				

**Line 7** – If line 7 shows an underpayment for any installment, complete Part IV, Exceptions Worksheets, and Part II, Exceptions to the Penalty, for that installment.

## Part II Exceptions to the Penalty

The FTB will not assess a penalty if all of the estimated tax was paid on time and the payments satisfied the exception rules. A corporation may qualify for more than one exception. Complete Part IV, Exceptions Worksheets, to see if the corporation qualifies to use any of the exceptions.

**California difference:** Under California law, the exceptions are computed on a cumulative basis. This differs from federal law which requires only 25% of the annual payment for each installment.

## Part III Figure the Penalty

If line 7 shows an underpayment for any installment and the corporation did not meet any of the exceptions in Part II, complete the penalty computation on line 11 through line 22.

Figure the penalty on the underpayment on line 7, from the installment due date to the return due date (excluding extension of time) or to the payment date, whichever is earlier.

### Additional payments

If the corporation made additional payments for an installment, figure the penalty on the revised underpaid amount (amount on line 7 minus the amount of the last payment) from the last payment date to the return due date (excluding extension of time) or to the date of the next payment, whichever is earlier. Attach a separate computation for each additional payment.

**Line 11** – Enter the date payment was made or the return due date (excluding extension of time), whichever is earlier.

**Form 109 filers** – Enter the date payment was made, or the 15th day of the 5th month after the close of the taxable year, whichever is earlier.

If the installment due date fell on a Saturday, Sunday, or a holiday and the corporation paid the estimate installment on the next business day, consider it paid on the due date.

**Note:** Days means calendar days unless otherwise noted.

**Line 12** – Enter the number of days from the installment due date (line 2) to the date shown on line 11.

**Line 13** – Enter the number of days on line 12 that are before 7/01/02 or the payment date, whichever is earlier.

**Line 14** – Enter the number of days on line 12 that fall within the period after 6/30/02 and before 1/01/03 or the payment due date, whichever is earlier.

**Line 15** – Enter the number of days on line 12 that fall within the period after 12/31/02 and before 7/01/03 or the payment due date, whichever is earlier.

**Calendar year corporations** – Enter the number of days on line 12 that fall within the period after 6/30/02 and before 3/15/03 or the payment date, whichever is earlier. The total of line 13 through line 15 cannot be more than the number of days shown on line 12. Skip line 16 and line 17 and proceed to line 18.

**Line 16** – For fiscal year corporations only, enter the number of days on line 12 that fall within the period after 6/30/03 and before 1/01/04 or the payment date, whichever is earlier.

**Line 17** – For fiscal year corporations only, enter the number of days on line 12 that fall within the period after 12/31/03 and before 2/15/04 or the payment date, whichever is earlier. The total days

on line 13 through line 17 cannot be more than the number of days shown on line 12.

**Line 18** – Divide the number of days shown on line 13 by the number of days in the taxable year. Multiply the result by seven percent and by the underpaid amount shown on line 7.

**Line 19** – Divide the number of days shown on line 14 by the number of days in the taxable year. Multiply the result by six percent and by the underpaid amount shown on line 7.

**Line 20** – Divide the number of days shown on line 15 by the number of days in the taxable year. Multiply the result by six percent and by the underpaid amount shown on line 7.

**Line 21 and Line 22** – Divide the number of days shown on line 16 or line 17 by the number of days in the taxable year. Multiply the result by the percentage, which the FTB will determine at a later date. Then multiply the result by the underpaid amount shown on line 7.

**Penalty Rates** – Call the FTB's automated phone system to get updated penalty rates.

For the interest rate for line 21, call after March 2003. For the interest rate for line 22, call after September 2003.

### How to Use the Automated Phone System

The system is available in English and Spanish to callers with touch-tone telephones.

General tax information is available 24 hours a day, seven days a week.

From within the United States  
call ..... (800) 338-0505

From outside the United States  
call (not toll free) ..... (916) 845-6600

After you reach the number, select business entity information, then general tax information, follow the recorded instructions, and enter **code number 403** to get the updated penalty rate.

## Part IV Exceptions Worksheet

**Note:** Newly formed or qualified corporations are not subject to the minimum franchise tax for the first taxable year. However, the corporation will be required to make estimated tax payments for its first taxable year. The estimated payments will be based on the corporation's expected tax liability after credits. For more information, see page 1, Newly Formed or Qualified Corporations.

### Exception A – Prior Year's Tax

#### Regular Corporations

Generally, this exception applies if the amount paid or credited on or before the installment due date equals or exceeds the tax shown on the return for the preceding year, prorated to each installment. For banks and financial corporations, the tax shown on the return includes the amount of the bank and financial tax rate adjustment. The return for the preceding year must have covered a full 12 months.

#### "Large" Corporations

A large corporation is any corporation, including a predecessor corporation, that had California net income (computed without regard to the net operating loss deduction) of \$1 million or more for any taxable year during the three taxable years immediately preceding the current taxable year.

**Installments 1 and 2** – This exception allows a large corporation to use prior year's tax for the 1st installment only. The difference between using the prior year's tax and the current year's tax for the 1st installment must have been added to the 2nd installment (calculated using current year's tax) to meet the exception.

**Installments 3 and 4** – Because Exception A for large corporations can only be used for the 1st two

installments, the corporation must use the amounts computed in Part I or Exception B or Exception C, column (c) and column (d) for the corporation's 3rd and 4th installments.

### Exception B – Tax on Annualized Current Year Income

This exception applies if the estimated tax paid on or before the installment due date was equal to or more than the amount the corporation would owe if its estimated tax was computed on annualized taxable income for the months preceding an installment due date.

For each period, in column (a) through column (d), enter the number of months for the annualization method used based on the table below. For example, if a Form 100 is filed and the Standard Option was used, enter 3 in column (a), 3 in column (b), 6 in column (c), and 9 in column (d).

#### Annualization Periods

Installment	1st	2nd	3rd	4th
Standard Option	3	3	6	9
Option 1	2	4	7	10
Option 2	3	5	8	11

Corporations can use the Standard Option or must elect to use Option 1 or Option 2. Exempt organizations use Option 1 (the Standard Option for exempt organizations) or elect to use Option 2. The election to use an expanded option must be made on or before the due date of the first required installment payment. Get the instructions for the 2002 Form 100-ES, Corporation Estimated Tax, for more information.

**Line 32** – Enter on line 32, column (a) through column (d), the annualization amounts for the option used. For example, if a Form 100 is filed and the Standard Option was used, on line 32, enter 4 in column (a), 4 in column (b), 2 in column (c), and 1.33333 in column (d). (Exempt organizations use the annualization amounts for the Standard Option or Option 1.)

#### Annualization Periods

Installment	1st	2nd	3rd	4th
Standard Option	4	4	2	1.33333
Option 1	6	3	1.71429	1.2
Option 2	4	2.4	1.5	1.09091

Attach form FTB 5806 to the front of Form 100, Form 100W, Form 100S, or Form 109 if Exception B is used in computing or eliminating the penalty. Be sure to check the penalty box on Form 100, line 41b; Form 100W, line 41b; Form 100S, line 40b; or Form 109, line 30.

### Exception C – Tax on Annualized Seasonal Income

This exception applies if the estimated tax paid on or before the installment due date was equal to or more than the amount the corporation would owe if its estimated tax was computed on annualized seasonal taxable income for the months preceding an installment due date. Use Exception C only if the corporation's base period percentage for any six consecutive months of the taxable year equals or exceeds 70%. Get the federal instructions for Form 2220, Underpayment of Estimated Tax by Corporations, for more information on the base period percentage.

Attach form FTB 5806 to the front of Form 100, Form 100W, Form 100S, or Form 109 if Exception C is used in computing or eliminating the penalty. Be sure to check the penalty box on Form 100, line 41b; Form 100W, line 41b; Form 100S, line 40b; or Form 109, line 30.